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FISCAL IMPACT STATEMENT

LS 7196
BILL NUMBER: HB 1316

NOTE PREPARED: Jan 27, 2005
BILL AMENDED:

SUBJECT: Community Revitalization Enhancement Districts.

FIRST AUTHOR: Rep. Buck
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill authorizes a municipality to designate a displacement corridor when a state or federal highway project displaces business enterprises located in the municipality. It authorizes a municipality that designates a displacement corridor to apply for the designation of a Community Revitalization Enhancement District (CRED). The bill exempts a displaced business that relocates in a CRED from the restrictions on moving within Indiana that apply to taxpayers seeking a tax credit for certain investments in a CRED.

Effective Date: July 1, 2005.

Explanation of State Expenditures: The changes made by the bill could potentially lead to a significant increase in administrative demands for the Department of State Revenue (DOR), the State Budget Agency (SBA), and the state Budget Committee resulting from the Community Revitalization Enhancement District (CRED) Program. Under current law, the state Budget Committee must review and make a recommendation to the SBA after they are notified of the local resolution designating a CRED. The SBA must approve the resolution designating the district. However, if the SBA fails to take action within 120 days of the date the resolution is submitted to the Budget Committee, the resolution is considered approved. The DOR must calculate the base income tax amount and the base gross retail amount for the district. The DOR and the SBA must annually estimate and certify the amount of income tax and sales tax which will be collected from the district.

Current statute limits CREDs to Indianapolis and roughly 21 second class cities. It also has specific provisions authorizing CREDs in the City of Marion and municipalities in Allen, Delaware, Monroe, and St. Joseph

Counties. Currently, there are CREDs operating in Bloomington, Marion, and South Bend, and recently designated in Anderson and Muncie. The bill would add roughly 90 to95 cities and 460 towns to the existing group of about 20 to 30 cities that could seek approval to establish a CRED in conjunction with a "displacement corridor (see definition below under *Explanation of Local Revenues*). The bill also allows cities currently eligible for CRED designations to, in addition, designate a displacement corridor CRED. The number of new CREDs that could potentially be designated as a result of the bill is indeterminable and contingent on the response of currently eligible cities and the newly authorized cities and towns.

Explanation of State Revenues: *Community Revitalization Tax Credit:* Taxpayers in CREDs that are designated in conjunction with "displacement corridors (see definition below under *Explanation of Local Revenues*) would be entitled to the nonrefundable Community Revitalization Tax Credit as is the case with a typical CRED. Under current statute, a taxpayer who makes a qualified investment for the redevelopment or rehabilitation of property located within a CRED is entitled to this credit. The credit is based on 25% of the qualified investment. The expenditures must be made under a plan adopted by an advisory commission on industrial development and approved by the Department of Commerce. The credit may be used to reduce the taxpayer's tax liability against the Adjusted Gross Income Tax, CAGIT, COIT, CEDIT, the Insurance Premiums Tax, and the Financial Institutions Tax. The taxpayer may carry any excess credit over to the immediately following years, but is not entitled to a carryback or refund of any unused credit. A taxpayer is not entitled to a credit if they substantially reduce or cease to operate in another area of the state in order to relocate within the district. As tax return data relating to this tax credit are unavailable and the potential number of new CREDs is indeterminable, the revenue loss from potential additional credits is indeterminable.

This tax credit is similar to the Industrial Recovery Site/Dinosaur Credit (IRTC) that has been in effect since 1987 under P.L. 379-1987(ss). Through the end of 2003, 29 tax credits have been awarded with a maximum value of about $23.0 M. This is an average of about $800,000 per credit awarded. The total investment in these projects equaled about $104.9 M. Since 2000, only 3 tax credits have been awarded with a maximum value of about $1.9 M and project investment totaling about $10.1 M.

CRED Income and Sales Tax Increment Allocations: This bill will allow the additional cities and towns that designate CREDs in conjunction with displacement corridors to capture up to $750,000 of the incremental income and sales taxes annually generated in the CRED, as is the case with a typical CRED. Current statute limits the increment that may be captured by these new CREDs to 75% of the incremental income and sales taxes. Current statute also provides that a CRED must terminate not later than 15 years after incremental income or sales taxes are first allocated to the CRED. The State Budget Agency must approve the resolution designating a CRED before incremental income and sales taxes may be allocated to a city or town designating a CRED. If the approval is obtained for any of the new CREDs, the state would forgo 75% of any new income or sales tax revenue up to $750,000 per year that is generated by the development in these new CREDs.

Captured incremental income and sales taxes transferred to existing CREDs totaled $492,005 for Bloomington and $24,241 for Marion in FY 2004; with no transfers made to South Bend. For FY 2005 through December 29, 2004, transfers of captured incremental income and sales taxes total $68,195 for Bloomington and $655,269 for South Bend; with no transfers yet to Marion. Bloomington, Marion, and South Bend CREDs are under current statute able to capture up to $1.0 M per year generated by CRED development. The incremental income and sales tax revenue will be transferred to the Industrial Development Fund of the city establishing the CRED. The covered taxes which will be included are Sales Tax, Adjusted Gross Income Tax, County Adjusted Gross Income Tax, County Option Income Tax, and County Economic Development Income Tax.

Revenue from the corporate AGI tax, the Insurance Premiums Tax, and the Financial Institutions Tax is deposited in the state General Fund. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%). Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%)

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill allows all cities and towns to designate a CRED in conjunction with a "displacement corridor (see definition below). Current statute limits CREDs to Indianapolis and roughly 21 second class cities. It also has specific provisions authorizing CREDs in the City of Marion and municipalities in Allen, Delaware, Monroe, and St. Joseph Counties. Currently, there are CREDs operating in Bloomington, Marion, and South Bend, and recently established in Anderson and Muncie. The bill would add roughly 90 to 95 cities and 460 towns to the existing group of about 20 to 30 cities that could seek approval to designate a CRED encompassing a displacement corridor. The bill also allows cities currently eligible for CRED designations to, in addition, designate a displacement corridor CRED. As under current law, a displacement corridor CRED would have to be designated by an advisory commission on industrial development. The commission resolution designating the CRED must be submitted to the Budget Committee for review and recommendation to the State Budget Agency. The SBA must approve the resolution before incremental income and sales taxes may be allocated to the CRED. However, if the SBA fails to take action within 120 days of the date the resolution is submitted to the Budget Committee, the resolution is considered approved. The district is limited to 15 years.

This bill will allow the additional cities and towns that designate a CRED to capture, under current statute, up to 75% of the incremental income taxes generated from new development in the CRED. This revenue is to be deposited in the Industrial Development Fund of the city designating the CRED. The covered taxes which will be included are CAGIT, COIT, and CEDIT. The local taxing units which would normally receive a share of the total local option income taxes generated in the CRED under current statute will not receive 75% of the incremental revenue generated. Current law also allows all taxing units, except townships, to impose a levy for the Industrial Development Fund at a rate of up to $0.0167 per $100 of assessed valuation. The proceeds from the tax levy may be pledged for the payment of bonds and obligations issued in a CRED.

Displacement Corridors: The bill authorizes the designation of a CRED by any city or town provided the CRED encompasses a displacement corridor also designated by the city or town. A displacement corridor could be designated by a city or town if: (1) a state or federal highway construction, expansion, or renovation project in the city or town has enlarged the highway right-of-way; (2) the highway enlargement has displaced business enterprises located in the city or town; and (3) the city or town has experienced a significant loss of assessed valuation and significant employment losses in the displacement corridor. The boundaries of the displacement corridor would be coextensive with the highway right-of-way in the city or town.

State Agencies Affected: Department of State Revenue, State Budget Agency, Budget Committee, State Treasurer.

Local Agencies Affected: Cities and towns.

Information Sources: Deanna J. Oware, Indiana Department of Commerce, Community Development Division, (317) 232-8917; Auditor's Revenue Trial Balance as of June 30, 2004, and December 29, 2004;

Auditor's Trial Balance database.

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